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Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 HA-05 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02
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H-01 L-03 NSC-05 PA-01 SS-15 DOE-11 SOE-02 /108 W
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TO SECSTATE WASHDC PRIORITY 5941
INFO AMEMBASSY CARACAS
AMEMBASSY GUATEMALA
AMEMBASSY SAN JOSE
AMEMBASSY SAN SALVADOR
AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L MANAGUA 1108

E.O. 11652: GDS
TAGS: EFIN, ELAB, PINT, SHUM, NU
SUBJECT: YOUNG TECHNICIANS EXPRESS CONCERN OVER NICARAGUA'S FUTURE

BEGIN SUMMARY: THREE ARTICULATE, YOUNG NICARAGUAN ECONOMISTS HAVE VOICED CONCERN ABOUT SERIOUS SOCIO-ECONOMIC PROBLEMS WHICH THEY THINK BODE ILL FOR NICARAGUA'S FUTURE IF STEPS TO RESOLVE THEM ARE NOT TAKEN IMMEDIATELY. THEY ARE PARTICULARLY CONCERNED ABOUT GROWING UN-EMPLOYMENT, DECLINING REAL INCOME FOR WORKERS, NICARAGUA'S MOUNTING BALANCE OF PAYMENTS DEFICITS, INFLATION, ILLIQUIDITY IN THE FINANCIAL SYSTEM AND A GENERAL LACK OF PUBLIC CONFIDENCE IN THE POLITICAL-ECONOMIC SYSTEM. THEY FEEL THAT IT WOULD BE DISASTROUS FOR NICARAGUA TO WAIT UNTIL 1981 BEFORE SERIOUSLY TACKLING BASIC IMBALANCES IN ITS SOCIAL STRUCTURE. WE TEND TO AGREE WITH THE THRUST OF MANY OF THE COMMENTS THEY MADE. END SUMMARY.

1. EMBOFFS MET MARCH 4 WITH THREE BRIGHT, YOUNG, US-EDUCATED, NICARAGUAN ECONOMISTS WHO WISHED TO DISCUSS LOCAL POLITICAL-ECONOMIC SITUATION. DURING COURSE OF THREE-HOUR CONVERSATION, THEY MADE THE CONFIDENTIAL

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FOLLOWING COMMENTS:

--BASED ON A MANY MONTHS STUDY OF EMPLOYMENT CONDITIONS IN URBAN AREAS,
THEY FOUND 18 PERCENT "OPEN"UNEMPLOYMENT IN MANAGUA, 35 PERCENT UNDER-
EMPLOYMENT, AND INCREASING INSTANCES OF URBAN FAMILIES HAVING ONLY

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INCOME EARNER. THEY CHARACTERIZED THE UNEMPLOYMENT SITUATION IN URBAN AREAS AS A SERIOUS PROBLEM WHICH WILL WORSEN YEAR BY YEARAS AN "INCREDIBLE" NUMBER OF YOUNG PEOPLE (NOT QUANTIFIED) JOIN A LIMITED INDUSTRIAL LABOR MARKET WHOSE PRESENT ABSORPTIVE CAPACITY AT BEST IS ONLY 35,000. (ACCORDING TO SOCIAL SECURITY DATA, THERE WERE 32,000 MANUFACTURING WORKERS COVERED BY THE SYSTEM IN 1977.)

--REAL INCOME FOR ALL WORKERS, ADJUSTED FOR INFLATION, HAS DECLINED OVER THE LAST DECADE. FOR EXAMPLE, ACCORDING TO CENTRAL BANK AND SOCIAL SECURITY DATA WHICH THEY COMPILED, THE AVERAGE HOURLY ADJUSTED WAGE DROPPED FROM C$1.72 PER HOUR IN 1967, IN REAL TERMS, TO C$1.48 IN 1975, THE LAST YEAR FOR WHICH COMPLETE DATA WERE AVAILABLE. (C$7.00 EQUALS US$1.00) THEY ASSERTED THAT THIS DOWNWARD TREND IN REAL INCOME FOR WAGE EARNERS HAS CONTINUED THROUGH 1977.

--NICARAGUA IS FACING ITS MOST CRITICAL BALANCE OF PAYMENTS SITUATION SINCE 1967 AS PUBLIC CONFIDENCE IN THE NATION'S FUTURE WANES, DOMESTIC PRIVATE INVESTMENT FALLS OFF, INFLATION INCREASES, AND ILLIQUIDITY IN THE FINANCIAL SECTOR IMPAIRS NORMAL ECONOMIC ACTIVITY. ECONOMICALLY SPEAKING, NICARAGUA IS IN THE WORST OF ALL WORLDS, AND 1979, IN THEIR VIEW, COULD BE FINANCIALLY CATASTROPHIC.

-- A POLITICAL SOLUTION BETWEEN THE GON AND OPPOSITION GROUPS WILL NOT RESOLVE THE BASIC SOCIO-ECONOMIC PROBLEMS WHICH THREATEN NICARAGUA.
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--THE RECENT DISTURBANCES IN MONIMBO DISTRICT OF MASAYA ARE SYMPTOMATIC OF BASIC STRUCTURAL IMBALANCES IN NICARAGUA'S SOCIO-ECONOMIC FRAMEWORK WHICH TEND TO INCREASE THE TENDENCY TOWARD RADICALIZATION OF THE COUNTRY. MANAGUA'S "OPEN 3" AND "SCHICK" SLUM AREAS AND LEON'S "SUBTIAVA" DISTRICT COULD EXPLODE AS MONIMBO DID, THEY FELT.

--SOME CONSERVATIVE GROUPS, INCLUDING FACTIONS LED BY ERNESTO FERNANDEZ HOLMANN (EXECUTIVE DIRECTOR OF BANCO DE AMERICA) AND DANILO LACAYO (ESSO'S GENERAL MANAGER) ARE EVIDENCING TACIT ACCEPTACE OF THE REFORM PROGRAM SOMOZA ANNOUNCED ON FEBRUARY 26 AND ARE WILLING TO ACCEPT SOMOZA'S CONTINUED RULE UNTIL 1981. THIS IS A SHORT-SIGHTED AND POTENTIALLY DIASTROUS POLICY, THEY OPINED.

--NICARAGUA CANNOT AFFORD TO WAIT UNTIL 1981 TO TACKLE ITS BASIC PROBLEMS, THEY STRESSED, BECAUSE THOSE PROBLEMS ARE WORSENING AND WILL
BE NEARLY IMPOSSIBLE TO RESOLVE THEN IF NOT DEALTH WITH EFFECTIVELY NOW.

--SHOULD PRESIDENT SOMOZA AND THE PRIVATE ENTERPRISE SECTOR BE ABLE TO REACH AN ACCOMMODATION NOW, THEY MIGHT WORK OUT A STRATEGY TO

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AVOID FURTHER RADICALIZATION AND THUS WEAKEN THE APPEAL OF EXTREMIST GROUPS.

2. COMMENT: ALTHOUGH OUR INTERLOCTORS MAY BE OVERESTIMATING THE CURRENT DANGERS OF POLITICAL AND SOCIAL UPHEAVALS FACING NICARAGUA, THEY ARE CORRECT, IN OUR VIEW, ABOUT THE SERIOUS SOCIO-ECONOMIC PROBLEMS THAT NOW EXIST. ALTHOUGH THEY PUT NICARAGUA'S BALANCE OF PAYMENTS DEFICIT FOR 1977 AT $56.6 MILLION (AND WE CALCULATED THAT DEFICIT AT $31.1 MILLION), WE ARE IN BASIC AGREEMENT ABOUT THE GENERAL STATE OF THE ECONOMY ANDTHE DIFFICULTIES NICARAGUA WILL HAVE IN 1978 AND THEREAFTER IN FINANCING ECONOMIC EXPANSION AND EMPLOYMENT OPPORTUNITIES. (THE EMBASSY'S ECONOMIC TRENDS REPORT FOR 1978, WHICH IS BEING POUCHED THIS WEEK, FORESEES LITTLE OR NO ECONOMIC GROWTH IN 1978 WITH CONTINUED INFLATION DESPITE CONTRACTINARY PRESSURES ON THE CONFIDENTIAL

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ECONOMY.) WE ARE ALSO IN AGREEMENT WITH THESE YOUNG MEN THAT NICARAGUA'S ECONOMIC PROBLEMS WOULD EXIST EVEN IF ITS POLITICAL PROBLEMS WERE RESOLVED. THE LATTER SERVES TO EXACERBATE THE NATION'S SERIOUS AND LARGELY UNADDRESSED SOCIO-ECONOMIC DIFFICULTIES.
RUBENSTEIN

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